

Finbarr O’Connell, Adam Stephens, Colin Hardman and Henry Shinnars of Smith & Williamson LLP were appointed Joint Administrators of London Capital & Finance Plc on 30 January 2019.

We have prepared this document to help Bondholders and other creditors understand what is happening. We hope that it helps.

Thank you

FREQUENTLY ASKED QUESTIONS

about London Capital & Finance Plc (in administration), “LCF” or “the Company”

Date 14 March 2019

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We wanted to highlight some key points for Bondholders:

- We will be contacting Bondholders again shortly as regards to our Administrators’ Proposals document.
- We will be working with borrowers, the security trustee, LCF personnel, the FCA and other stakeholders to advance matters as expeditiously as possible.

Section 1 - INSOLVENCY and LCF

NB This Q&A document has been prepared at the time of our appointment. As events and information develops we will update it. References to 'we' mean to the Administrators.

1. What is Administration?

When a company is experiencing financial difficulties it can be placed into administration. Administration is an insolvency process. LCF has entered into administration.

Under insolvency law, the affairs, business and property of a company in administration (such as LCF) are managed by the Administrators. The Administrators have to be independent of LCF.

The Administrators of LCF are at an early stage of their work, but obviously a key part of their role is to safeguard the loans made by LCF to the various borrowers. The Administrators also have a duty to contact all creditors. Creditors includes Bondholders. Section 2 of this document sets out some queries which Bondholders may have.

2. Who are the Administrators / Smith & Williamson LLP?

Finbarr O'Connell, Adam Stephens, Colin Hardman and Henry Shinnars ("the Administrators") all of Smith & Williamson LLP, were appointed by the Court following an application to Court by the directors of the Company.

Whilst the directors of the Company made the application for the appointment of Administrators, the FCA consented to the appointment of the named Administrators.

The Administrators were not approached directly by the Company or its directors but rather by a third party who was aware of the Company's need for independent insolvency advice. The Administrators ran conflict checks and confirmed that they have had no previous dealings with the Company or its directors.

The Administrators are all qualified insolvency practitioners, regulated by The Institute of Chartered Accountants in England & Wales. The administrators act independently of the Company and the directors for the benefit of all creditors and stakeholders. Their primary concern and mandate is to ensure that they maximise the return to bondholders and creditors alike.

Smith & Williamson LLP are a leading, independently owned, financial and professional services group. Smith & Williamson has been looking after the financial affairs of individuals, families and businesses for more than 130 years. The firm employs over 1,700 people, has 12 offices across the UK, Ireland and Jersey, and is the 8th largest UK accountancy firm (Accountancy Age, 2017).

3. What was LCF's business?

LCF was the issuer of mini-bonds which were used for the purposes of making loans to corporate borrowers to provide those borrowers with capital for further investment. We are further informed that, the Borrowers repaid their loans to LCF which then used the proceeds to further fund its business and to repay the Bondholders. The issuing of mini-bonds does not normally involve the carrying on of a Financial Conduct Authority ('FCA') regulated activity. Therefore, LCF did not need to be authorised by the FCA to issue the mini bonds. In order to promote the mini-bonds the content of the promotional material (such as brochures and investment memorandum) needed to be approved by an FCA authorised person. Once LCF became authorised by the FCA on 7 June 2016, it was able to issue its own promotional material. In doing so, it was subject to FCA's financial promotion rules. Its relevant FCA number is FRN 722603.

Here is LCF's website:

www.londoncapitalandfinance.co.uk

4. Why has LCF entered into administration?

LCF filed its application for an administration order on 30 January 2019 because it had become insolvent. There were several factors which have contributed to the insolvency:

1. The FCA have determined that "the manner in which LCF was promoting its bonds was misleading, not fair and unclear" - for further detail see in the FCA's Notice dated 17 January 2019 published on the FCA's website. Here is the link to the Notice:

www.fca.org.uk/publication/supervisory-notices/second-supervisory-notice-london-capital-and-finance-plc-2019.pdf

2. In light of this on 10 December 2018 the FCA deemed it necessary to require LCF to immediately withdraw its financial promotions in relation to the bonds. In order to further protect investors, on 13 December 2018 the FCA imposed certain requirements on LCF including (a) not to dispose of or deal with its assets, save in limited circumstances (b) to cease conducting all regulated activity and (c) not to communicate any financial promotions. These requirements were imposed pursuant to a voluntary application by LCF. The requirement in relation to LCF's assets was subsequently amended on 18 December to further restrict LCF from dealing in any way with its bank accounts without the prior approval of the FCA.
3. As a result of the above, LCF has been unable to raise further monies from investors.
4. Professional advice was sought and the Company was advised that LCF was insolvent and that it should be placed into administration to provide the best outcome for Bondholders and other creditors. The Company was also advised that in order for some independent party to be able to deal with the Company's assets for the benefit of the Bondholders and the other creditors that the directors should place the Company into Administration such that the Administrators could

perform those essential functions. As LCF is an FCA regulated company, the consent of the FCA is required for the directors of LCF to resolve to place the Company into administration. Accordingly, the consent of the FCA was duly sought and obtained.

Here is a link to the FCA's website as regards LCF.

www.fca.org.uk/news/news-stories/information-london-capital-and-finance-plc-investors

5. When will I hear from the Administrators?

The Administrators are very mindful of Bondholders' and other creditors' understandable concerns about the current situation.

Bondholders should have received an initial email from the Administrators advising them of their appointment. Should you not have received this email, issued on 31 January 2019, please notify us at the email address below.

All other creditors have been duly notified.

6. When will I get something back, and how much will it be?

It is too early for the Administrators to say how much money they will be able to return to Bondholders, and other creditors, and when any payments will be made to them. The Administrators are working to maximise returns to Bondholders as quickly as they are able.

The Administrators are now evaluating (i) LCF's current financial position, and (ii) working to maximise recoveries either in the short or longer term for the benefit of Bondholders. The Administrators will continue to update the Bondholders and other creditors with the progress that they are making with their investigations.

It is clear that the process of trying to collect each of the Borrowers' loans in order to generate funds to enable any repayment to the Bondholders and other creditors is going to be a lengthy process.

The Administrators' can however confirm that no loans to Borrowers are expected to be settled imminently. The Administrators will report the likely dates of any repayments or part-repayments as soon as they become aware of them.

7. I have read some of the press articles about LCF. What are you doing about the issues raised?

Some serious issues have been raised in the press. As Administrators, we are obliged by law to undertake various investigations. We have already commenced our investigatory work, however, it is too early to comment at this stage in proceedings. Some of our investigatory work is also necessarily confidential.

We will update creditors and Bondholders as appropriate, including by way of updates to this FAQ document, and in the forthcoming Administrators' proposals document.

8. Are you in contact with the FCA?

Yes, we are in regular contact with the FCA, and the FCA consented to us being appointed as Administrators of the Company.

9. Are you in contact with LCF's management?

We are in contact with LCF's former management. LCF's staff (a small number remain) are continuing to assist us at the moment.

10. Where can I get further information from?

The Administrators will be writing again to all creditors of LCF in the next two weeks. Creditors include Bondholders. Please note that an update, dated 21 February, has been sent to all bondholders. You can find a copy of that communication on the LCF website:

<https://www.londoncapitalandfinance.co.uk/>

Subsequently, and within 8 weeks of appointment, the Administrators will be contacting creditors with details of the Administrators' Proposals. We expect that the Administrators' Proposals will be issued on Monday 25th March. This is a longer form document which sets out the Administrators' plans for managing the Administration. Creditors will receive a letter with access to a website portal from where they will be able to download the Administrators' Proposals. The Administrators' Proposals will contain essential updates for the creditors, including the Bondholders.

Please also note that the Administrators plan to issue updates to creditors, including the Bondholders, on a continuous basis both by means of updates on the Company's website and by direct emails to the Bondholders.

At the end of this FAQ document, there are some further contact details which will enable creditors, including Bondholders, to obtain further information regarding the Administration. LCF's website will be updated with information.

As it is only the start of the Administration, our answers are likely to be necessarily brief on certain details now although these answers will develop as regards further detail over the coming weeks.

11. What has happened to LCF's staff

A small number of the Company's staff continue to be employed by LCF, and are under the control of and assisting the Administrators.

12. Can I phone the Company?

We have set up a dedicated phone number, which is noted at the end of this document, along with other contact details.

13. I am an LCF borrower. What will happen to my loan?

The Administrators are in direct contact with all of the Borrowers (and sub-Borrowers) and are assessing their ability to repay, at the appropriate maturity dates, or earlier, the monies loaned to them by LCF.

The Administrators continue to work with the Bondholders' security trustee and other parties to determine the optimal strategy to enable to Bondholders and creditors to receive as much back as possible and as soon as possible. The Administrators also have to have regard to the terms on which the loans have been made to the borrowers.

GDPR Fair Processing Notice

As part of our role as Administrators, we may need to access and use data relating to individuals. In doing so, we must abide by data protection requirements.

Information about the way that we will use and store personal data in relation to insolvency appointments can be found at www.smithandwilliamson.com/rrsgdpr . If you are unable to download this, please contact the Administrators and a hard copy will be provided free of charge.

It is important that you read this Fair Processing Notice so that you are truly aware of how and why we are using your data. This Fair Processing Notice supplements any other notices the Company may have served on you and is not intended to override them.

To the extent that you hold any personal data on the Company's data subjects provided to you by the Company or obtained otherwise, you must process such data in accordance with data protection legislation. Please contact us if you believe this applies.

Section 2 - BONDHOLDER QUESTIONS

The below questions have been drafted for LCF's Bondholders ('Bondholders'). However, please note that a number of questions and answers in Section 1 to this document are also relevant to Bondholders.

1. What types of bonds have been issued by LCF?

LCF issued a number of unregulated corporate bonds paying, in broad summary, ranging from 1 year to 5 year bonds, paying interest of between 3% and 8.95% per annum. These are sometimes referred to as mini-bonds.

2. What is a mini-bond?

As noted by the FCA in relation to LCF and mini-bonds:

"A mini-bond is an unlisted debt security, typically issued by small businesses to raise funds.

Mini-bonds can be attractive to investors because of the interest rates on offer. However, prospective investors need to understand the associated risks. Mini-bonds are usually illiquid as they are not easily traded, unlike listed retail bonds, which they are often compared to. They can also be high risk, as the failure rate of small businesses can be high. Additionally, as with other corporate bonds, there is no Financial Services Compensation Scheme (FSCS) protection if the issuer fails."

www.fca.org.uk/news/news-stories/information-london-capital-and-finance-plc-investors

3. Where was my money invested / Who are the borrowers?

We appreciate that bondholders need to understand where their funds have been lent to, however, we do not wish to disclose this information at present for the reasons set out below.

The primary reason for not discussing the individual identities of the borrowers in any public forum at present is that the Administrators can envisage no possible circumstances where this will lead to an enhanced recovery for the bondholders, and it may well lead to quite the opposite result.

The Administrators are independently investigating the loans as a priority. All borrowers' agreements are being reviewed to fully understand the nature and structure of the loans; the ability for the Company to recover these loans as quickly as possible and the financial position of the entities where funds have been loaned to. The Administrators are holding meetings with all borrowers to fully understand the nature and position of the loans made by the Company.

The Administrators are also mindful that where loans have been made to publicly listed and actively trading entities, that we avoid negatively affecting their financial position and ability to repay bondholders money.

The Administrators will provide such details with regard to the borrowers as they deem appropriate, in due course. However, the Administrators' would reiterate here their huge concern as to the ability of many of the borrowers and sub-borrowers to either repay the amounts loaned to them or to provide sufficient security to ensure that those loans are repaid. The Administrators have recently said that they believe the return to the Bondholders could be as low as 20% of the amount they invested. The Administrators will provide further information in this regard in the report which will accompany their Proposals.

4. Have any of the borrowers defaulted?

The Company's loans to borrowers are the major asset of the Company. Subject to any statutory duties, the Administrators will do nothing which will adversely impact the borrowers' ability to repay their debts due to the Company. We can confirm that since our appointment, we have not received any returned loans or interest. This does not mean that we won't in the future, and we are in detailed discussions with a number of them about the return of funds soon.

5. When will you start paying me?

LCF has entered into Administration. Regrettably we cannot make any payments to Bondholders at this time.

As Administrators, we will be working with all of LCF's borrowers, the Bondholders' security trustee, the FCA and other parties as quickly as we can to determine the optimal strategy to enable Bondholders and creditors to receive payment of as much of their debt as is possible, as soon as possible, having regard to the terms on which the loans have been made to the borrowers.

6. Am I covered by the Financial Services Compensation Scheme (FSCS)?

We understand that it is unlikely that Bondholders will be covered by the FSCS. The FCA have stated the following about LCF and the FSCS.

“Issuing mini bonds is not a regulated activity, just as is typically the case with other corporate bonds. This means investors are unlikely to have access to the FSCS in the event the firm is declared in default, but this would be a matter for the FSCS to determine.” (Our emphasis in bold type).

For your information, the FSCS aims to protect certain individuals up to certain financial limits when an FCA authorised firm fails or stops trading. It protects certain private individuals and small businesses if an authorised firm becomes insolvent and cannot pay claims against it. The relevant FSCS eligibility criteria can be found on the FSCS's website here:

www.fscs.org.uk/your-claim/eligibility-rules

Nevertheless, we have been in regular contact with the FSCS and have held meetings with them. The FSCS have now issued a statement, where it says:

“London Capital & Finance plc is in Administration. The Administrators are representatives from Smith & Williamson LLP.

FSCS understands that the firm issued its own mini-bonds to investors on a non-advised basis. This activity is not a regulated activity under the Regulated Activities Order and, therefore, is not FSCS-protected. For this reason, while the firm is insolvent, we’re not accepting claims against the firm.

Should we determine that there are circumstances that give rise to potentially valid claims, we’ll begin to accept claims against London Capital & Finance plc. If this happens, we’ll communicate this to customers on our website. We’re working closely with the Administrators to understand more about how the firm carried out its regulated activities.”

You can find the statement here:

<https://www.fscs.org.uk/news/2019/march/london-capital--finance-plc-has-failed/>

7. How many people have bought these bonds?

We understand that there are approximately 11,500 people who have bought some 14,000 bonds, meaning that a number of individuals have multiple investments. We understand that the face value of the bonds issued is approximately £236m.

8. Does LCF need to be authorised by the FCA?

As noted by the FCA, firms are required to be authorised by the FCA if they undertake any of the regulated activities listed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the Order). Authorised firms are subject to a set of overarching principles and rules issued by the FCA. These principles and rules have to be followed when an authorised Firm is carrying on regulated activities in the UK. The Order excludes certain activities from its scope.

Issuing mini-bonds does not normally involve the carrying on of a regulated activity. Therefore, LCF did not need to be authorised to issue the mini bonds. However, promotional material for the mini bonds (depending on the target market) would need to be issued or approved by an FCA authorised person. Once LCF became authorised by the FCA on 7 June 2016, it issued its own promotional material. In doing so, it was subject to FCA’s financial promotion rules.

9. I bought my bonds through an ISA. What happens to my ISA?

ISA stands for Individual Savings Account. LCF was an ISA manager.

LCF issued bonds which were deemed ISA qualifying investments. The FCA have maintained an alternative position and in their second supervisory notice (dated 17 January 2019) they state that “it...appears that LCF’s Bonds do not qualify to be held in an ISA account”. The FCA’s website does state in relation to people holding ISAs with LCF that they “do not need to take any action at this time with respect to their tax position”, and we understand that this has been confirmed with Her Majesty’s Revenue & Customs (‘HMRC’). Here is the link to the FCA’s website www.fca.org.uk/news/news-stories/london-capital-and-finance-plc-enters-administration

No ISA transfers to other ISA providers can be actioned by the Administrators, the Company or any third party at this time.

As part of our work, we are liaising with HMRC (including regular conference calls) on the tax status of the LCF bonds. HMRC have confirmed to us that they are carrying out a review with regard to this. They plan to correspond with all of the Bondholders who have invested in their mini-bonds by way of ISAs promoted by LCF as an ISA manager, when they have completed their investigations in this regard.

ISA holders can contact HMRC by email at savings.audit@hmrc.gsi.gov.uk with regard to any specific questions they have relating to the tax status of their ISAs.

10. Coupon payments - I was due a coupon payment recently. Will I get it?

Regrettably, coupon payments cannot be made. Any coupon payment due is likely to form part of any claim a Bondholder has.

11. Will I be able to access the LCF online portal to see my investment?

The Administrators are working to ensure that access to the client portal remains live. Obviously in light of recent events the website may experience high levels of traffic, so please bear with us. However, you should still be able to login to the website. The website is:

www.londoncapitalandfinance.co.uk/login

Please be aware that the system will have limited functionality and, for instance, you will not be able to actually make withdrawals. The information currently available on the Company’s platform is based on the Company’s records.

12. Will the Administrators be contacting me?

The Administrators should have been in contact with you already, however, if you have not heard from us yet, please email us at LondonCapital@smithandwilliamson.com including your name and any reference numbers which LCF has used in correspondence with you.

Within 8 weeks of the Administrators' appointment, we will be contacting all creditors with details of the Administrators' Proposals. We expect that the Administrators' Proposals will be issued on Monday 25th March. Creditors will receive access to a website portal where they will be able to download the Administrators' Proposals. These Proposals will contain essential updates for the creditors including an update on the Administration and the Administrators' plans going forward.

A creditors' meeting will be convened at the time when the Administrators' Proposals are being considered and creditors will be able to vote on certain key matters in person or by proxy.

13. Do I need to make a claim for my bonds?

The Administrators are currently designing a claim form (and questionnaire) which will enable all Bondholders to lodge their claims with the Administrators and to help the Administrators to investigate LCF's affairs. This claim form and questionnaire will be sent to the Bondholders when the Administrators have had input into its design from all relevant parties.

14. Can I sell my bond to someone else?

LCF have previously advised Bondholders that the bonds you have purchased are non-transferable which means that they cannot be sold to third parties.

15. What is the role of the security trustee?

The main role of the security trustee is to represent the interests of the Bondholders and that duty extends to working with the Administrators to assist them in as far as possible to understand the position of the Bondholders and to support the Administrators' efforts to adopt the optimal strategy to maximise the return for the Bondholders. We will be working with the security trustee, and the many other stakeholders to resolve matters as soon as possible. The security trustee holds 2 debentures over the assets of the Company on trust for the benefit of the Bondholders, creating security over all the assets of LCF in favour of the Bondholders.

16. I have been approached by someone claiming that they can get my investment back for a fee.

Where financial firms enter into administration, experience is that fraudsters may sometimes approach investors claiming to be able to recover their investment in return for an advance fee. Sometimes the fraudsters claim to be from the company or the administrators. You should be wary of any unexpected call, email or other contact which asks you for money in this manner. FCA guidelines are available at

www.fca.org.uk/consumers/protect-yourself-scams

As stated above, no bond investments can be redeemed or transferred, in addition, no ISA transfers to other ISA providers can be actioned at this time.

17. I purchased my bonds through a financial adviser. I have queries about the advice I received.

You should contact your financial adviser directly.

18. Can I complain to the Financial Ombudsman Service ('FOS')?

We are in dialogue with FOS. FOS have asked us to state the following:

“Unfortunately, LCF’s entry into administration means the FOS can’t take your complaint forward. This is because it is now for the administrators to determine whether customers will be able to recover any money out of LCF’s assets.”

Section 3 - NON-BONDHOLDER CREDITORS

1. I am a supplier of LCF, what should I do?

The Administrators will write to you in due course regarding outstanding balances and ongoing supply.

To the extent that the Administrators enter into a contract with you for supplies or services to be provided after the commencement of the Administration, then you will be paid for those supplies or services.

2. I am a creditor of LCF, what should I do regarding outstanding balances due to me?

The Administrators will write to you in due course regarding outstanding balances. However, you are welcome to write to us, giving details of your claim with supporting paperwork.

Thank you

Section 4 - Contact information

Write to us (preferred)

FAO: The Administrators
London Capital & Finance plc (in administration)
c/o Smith & Williamson LLP
25 Moorgate
London
EC2R 6AY

Telephone us:

020 7131 4266

This is a dedicated mailbox number and you will be able to leave a message if no one is available to speak to you.

(The previously provided call centre number currently diverts through to this number).

Email us:

LondonCapital@smithandwilliamson.com

Website:

The following website will be updated (including with this FAQ document)

www.londoncapitalandfinance.co.uk

The FCA will be updating their website with information. Currently, the FCA have provided some details at this address:

www.fca.org.uk/news/news-stories/information-london-capital-and-finance-plc-investors

Thank you

